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A COMPONENT UNIT OF WASATCH COUNTY

Financial Statements

December 31, 2006

WASATCH COUNTY
SPECIAL AGENT TO THE ATTORNEY GENERAL

A COMPONENT UNIT OF WASATCH COUNTY

Financial Statements

December 31, 2006

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INDEPENDENT AUDITORS' REPORT

Honorable Board Members
Wasatch County Special Service Area #1
Heber City, Utah

We have audited the accompanying financial statements of Wasatch County Special Service Area #1, a component unit of Wasatch County, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of Wasatch County Special Service Area #1's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wasatch County Special Service Area #1 as of December 31, 2006, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2007 on our consideration of Wasatch County Special Service Area #1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial

reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis information on pages MDA-1 through MDA-6 are not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

May 21, 2007

WASATCH COUNTY SPECIAL SERVICE AREA #1

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Wasatch County Special Service Area#1, we offer readers of the Area's financial statements this narrative overview and analysis of the Area's financial performance during the year ending December 31, 2006. Please read it in conjunction with the Area's financial statements and additional information that we have furnished in the independent Auditor's report.

FINANCIAL HIGHLIGHTS

- The Area's total net assets increased from \$ 267,549 to \$ 405,998 primarily due to an increase in Cash.
- The Area's operating expenses decreased 4.79 % from 2005 by (\$ 18,299) which is not a significant decrease for the year.
- The District's revenues increased over 2005 by \$ 16,526 due to contracts with irrigation companies for fees relating to the Central Utah Water Project for additional water sales in 2006 and more interest earned from the Area's Public Treasurer's Investment Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this Management's Discussion and Analysis report, the Independent Auditors' Report and the basic financial statements of the Area. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Area report information of the Area using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about the Area's activities. The Statement of Net Assets includes all of the Area's assets and liabilities and provides information about the nature and amounts of investments and resources (assets) and the obligations to Area creditors (liabilities). It also provides the basis for evaluating the capital structure of the Area and assessing the liquidity and financial flexibility of the Area.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Area's operations over the past year and can be used to determine whether the Area has successfully recovered all its costs through its fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financial activities and provides answers to such questions as where did cash come from, what was it used for, and what was the change in the cash balance during the reporting period.

WASATCH COUNTY SPECIAL SERVICE AREA #1

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

FINANCIAL ANALYSIS OF THE DISTRICT

The Statement of Net Assets, and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the Area and the changes in them. The Area's net assets, or the difference between assets and liabilities, is one way to measure financial health or financial position. Over time, increases or decreases in the Area's net assets will be one indicator of whether its financial health is improving or deteriorating. However, in the future one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

NET ASSETS

**Table A-1
Statement of Net Assets
2006**

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>
Current and Other Assets	\$ 1,099,594	\$ 520,103	\$ 579,491
Capital Assets	<u>4,702</u>	<u>12,296</u>	<u>(7,594)</u>
Total Assets	<u>\$ 1,104,296</u>	<u>\$ 532,399</u>	<u>\$ 571,897</u>
Long-term Debt Outstanding	\$ 0	\$ 0	\$ 0
Other Liabilities	292,567	264,850	27,717
Deferred Revenue	<u>405,731</u>	<u>0</u>	<u>405,731</u>
Total Liabilities	<u>\$ 698,298</u>	<u>\$ 264,850</u>	<u>\$ 433,448</u>
Invested in Capital Assets, Net of Related Debt	\$ 4,702	\$ 12,296	\$ (7,594)
- Restricted	0	0	0
- Unrestricted	<u>401,296</u>	<u>255,253</u>	<u>146,043</u>
Total Net Assets	<u>\$ 405,998</u>	<u>\$ 267,549</u>	<u>\$ 138,449</u>

As can be seen from the table above, net assets increased from \$267,549 to \$405,998 in 2006. The increase in net assets was primarily due to an increase in Cash as reflected in Changes in Current and Other Assets. Cash was significantly higher in 2006 because of Deferred Revenue for future year payments collected by the Area. Changes in Other Liabilities were due to the invoiced amount payable to the Central Utah Water Conservancy District.

WASATCH COUNTY SPECIAL SERVICE AREA#1

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

NET ASSETS (cont.)

**Table A-2
Statement of Revenues,
Expenses, and Changes in Net Assets
2006**

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>
Operating Revenues	\$ 459,839	\$ 443,313	\$ 16,526
Nonoperating Revenues	<u>42,668</u>	<u>4,758</u>	<u>37,910</u>
Total Revenues	<u>502,507</u>	<u>448,071</u>	<u>54,436</u>
Depreciation Expense	4,425	6,064	(1,639)
Other Operating Expense	359,633	376,293	(16,660)
Nonoperating Expense	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenses	<u>364,058</u>	<u>382,357</u>	<u>(18,299)</u>
Income (Loss) Before Capital Contributions	138,449	65,714	72,735
Capital Contributions	<u>0</u>	<u>0</u>	<u>13,331</u>
Changes in Net Assets	138,449	65,714	72,735
Beginning Net Assets	<u>267,549</u>	<u>201,835</u>	<u>65,714</u>
Ending Net Assets	<u>\$ 405,998</u>	<u>\$ 267,549</u>	<u>\$ 138,449</u>

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes. As can be seen in Table A-2 above, income before contributions of \$138,449 was the increase in net assets in 2006.

The decrease in Total Expenses of (\$18,299) is not a significant decrease from 2005.

The increase in the Area's operating revenue of \$41,1051 is due to contracts with the irrigation companies for fees relating to the Central Utah Water Project in Wasatch County.

WASATCH COUNTY SPECIAL SERVICE AREA #1

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

BUDGETARY HIGHLIGHTS

The Area adopts an annual Budget by resolution following a public hearing. The Budget includes proposed expenses and the means of financing them. The Area's Budget remains in effect the entire year and is subject to revision if necessary during and/or at the end of the year following a public hearing and adoption by the Governing Board by resolution. A quarterly budget comparison and analysis is presented to management and to the Governing Board for their review.

**Table A-3
Budget vs. Actual
2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
From Operations	\$ 441,803	\$ 459,839	\$ 18,036
Non-operating	<u>522,397</u>	<u>42,668</u>	<u>(479,729)</u>
Total	<u>964,200</u>	<u>502,507</u>	<u>(461,693)</u>
Operating Expenses			
Employee Costs	82,025	24,853	(57,172)
Overhead & Management	12,000	8,858	(3,142)
CUWCD Repayment Costs	662,000	291,574	(370,426)
Supplies, Materials, Services	38,750	34,348	(4,402)
Depreciation	9,700	4,425	(5,275)
Other	<u>750</u>	<u>0</u>	<u>(750)</u>
Total Expenses	<u>810,225</u>	<u>364,058</u>	<u>(446,167)</u>
Income (Loss)	<u>\$ 153,975</u>	<u>\$ 138,449</u>	<u>\$ 15,526</u>

The final adopted budget for 2006 is represented in Table A-3 above. The decrease in depreciation expense of (\$5,275) compared to budget was the cause of a vehicle sold during 2006. The decrease in CUWCD repayment costs of (\$370,426) are due to deferred revenue water sales in 2006 anticipated payable to the CUWCD but not payable until future years. The decrease in employee costs of (\$57,172) are the result of having no employees from May until year end. The decrease in supplies, materials, services of (\$4,402) is a result of anticipated expenses not incurred during the year.

WASATCH COUNTY SPECIAL SERVICE AREA#1

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

CAPITAL ASSETS

**Table A-4
Capital Assets
2006**

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>
Office Equipment	\$ 1,738	\$ 1,738	\$ 0
Vehicles	15,369	39,138	(23,769)
Equipment	8,848	8,848	0
Water Lines	<u>3,866</u>	<u>3,866</u>	<u>0</u>
Sub-total	29,821	53,590	(23,769)
Less: Accum. Depreciation	<u>(25,119)</u>	<u>(41,294)</u>	<u>(16,175)</u>
Net Assets	<u>\$ 4,702</u>	<u>\$ 12,296</u>	<u>\$ (7,594)</u>

The Area's net assets decreased by (\$ 7,594) to \$ 4,702 due to normal depreciation of \$ 4,425 and due to a vehicle sale decreasing gross assets by (\$ 23,769).

WASATCH COUNTY SPECIAL SERVICE AREA #1

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

DEBT ADMINISTRATION

The Area currently has no long-term debt in the form of notes, bonds, or warrants. All liabilities are current and paid within 30 days of invoice.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The County Council and management of the Area considered many factors when setting the year 2006 budget. One of those factors is the local economy and the impact our rates will have on the local irrigation companies and water users. The Area is dedicated to practice water conservation and commits itself to train and keep up to date employees and management on this subject. The training and knowledge the Area receives in conserving and effectively using water will be passed on to local irrigation companies and water users that will be helpful during the drought that currently exists in the State. The Area works closely with the Central Utah Water Conservancy District in the management and use of water within Wasatch County. The Area and the CUWCD has set into place fees in 2006 that will be competitive with other Area's and District's within Wasatch County and the State.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is designed to provide our customers and creditors with a general overview of the Area's finances and to demonstrate the Area's accountability for the money it receives. If you have questions about this report or need additional information, contact the Wasatch County Special Service Area#1, 55 South 500 East #118, Heber City, Utah 84032.

FINANCIAL STATEMENTS

The financial statements include integrated sets of financial statements as required by accounting principles generally accepted in the United States of America. The statements include:

Statement of Net Assets

Statement of Revenues, Expenses, and Changes in Net Assets

Statement of Cash Flows

WASATCH COUNTY SPECIAL SERVICE AREA #1

A COMPONENT UNIT OF WASATCH COUNTY

Statement of Net Assets

December 31, 2006

With Comparative Totals for December 31, 2005

ASSETS		<u>2006</u>	<u>2005</u>
Current Assets			
Cash and cash equivalents (Notes 1 and 2)	\$	832,764	\$ 193,855
Accounts receivable (Note 1)		266,830	326,248
Total current assets		<u>1,099,594</u>	<u>520,103</u>
Noncurrent Assets			
Capital assets, net (Notes 1 and 4)		4,702	12,296
Total assets	\$	<u><u>1,104,296</u></u>	<u><u>\$ 532,399</u></u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$	450	\$ 649
Accrued payroll and related benefits			4,054
Payable – other governmental unit (Note 5)		292,117	260,147
Deferred revenue		405,731	
Total liabilities	\$	<u><u>698,298</u></u>	<u><u>\$ 264,850</u></u>
NET ASSETS			
Invested in capital assets	\$	4,702	\$ 12,296
Unrestricted		401,296	255,253
Total net assets	\$	<u><u>405,998</u></u>	<u><u>\$ 267,549</u></u>

WASATCH COUNTY SPECIAL SERVICE AREA #1
A COMPONENT UNIT OF WASATCH COUNTY
Statement of Revenues, Expenses, and Changes in Net Assets
 For the Year Ended December 31, 2006
 With Comparative Totals for the Year Ended December 31, 2005

	2006	2005
Operating Revenues		
Charges for services	\$ 456,533	\$ 435,771
Miscellaneous	3,306	7,542
Total operating revenues	<u>459,839</u>	<u>443,313</u>
Operating Expenses		
Assessments paid to CUWCD	291,574	258,443
Insurance	965	200
Professional and technical	14,041	20,118
Payroll and related benefits	24,853	76,505
Utilities	74	589
Supplies	1,298	1,088
Services	24,976	16,911
Travel	1,852	2,439
Depreciation	4,425	6,064
Total operating expenses	<u>364,058</u>	<u>382,357</u>
Operating income	<u>95,781</u>	<u>60,956</u>
Nonoperating Revenues		
Interest revenue	29,337	4,758
Gain on disposal of assets	13,331	
Total nonoperating revenues	<u>42,668</u>	<u>4,758</u>
Change in Net Assets	138,449	65,714
Net assets -- beginning of year	<u>267,549</u>	<u>201,835</u>
Net assets -- end of year	<u>\$ 405,998</u>	<u>\$ 267,549</u>

WASATCH COUNTY SPECIAL SERVICE AREA #1

A COMPONENT UNIT OF WASATCH COUNTY

Statement of Cash Flows

For the Year Ended December 31, 2006

With Comparative Totals for the Year Ended December 31, 2005

	2006	2005
Cash Flows from Operating Activities		
Receipts from customers	\$ 924,988	\$ 419,561
Payments to suppliers	(303,009)	(321,105)
Payments to employees	(28,907)	(76,172)
Net cash provided by operating activities	<u>593,072</u>	<u>22,284</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of capital assets	16,500	
Net cash provided by capital and related financing activities	<u>16,500</u>	
Cash Flows from Investing Activities		
Interest	29,337	4,758
Net cash provided by investing activities	<u>29,337</u>	<u>4,758</u>
Net increase in cash and cash equivalents	638,909	27,042
Balances – beginning of year	<u>193,855</u>	<u>166,813</u>
Balances – end of year	<u><u>\$ 832,764</u></u>	<u><u>\$ 193,855</u></u>
<i>Reconciliation of operating income to net cash provided by operating activities</i>		
Operating income	\$ 95,781	\$ 60,956
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	4,425	6,064
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	59,418	(23,752)
Increase (decrease) in accounts payable	27,717	(21,317)
Increase in unearned revenue	405,731	
Increase in accrued liabilities		333
Net cash provided by operating activities	<u><u>\$ 593,072</u></u>	<u><u>\$ 22,284</u></u>

NOTES TO FINANCIAL STATEMENTS

The notes to the financial statements are included to provide information that is essential to a user's understanding of the financial statements.

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements and notes are representations of Wasatch County Special Service Area #1's (Service Area) management, which is responsible for their integrity and objectivity. They have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and present the financial position, the changes in its financial position, and the cash flows of the Service Area as of December 31, 2006, and for the year then ended. This summary of significant accounting policies of the Service Area is presented to assist in understanding the financial statements.

Reporting Entity

Wasatch County Special Service Area #1 was created by Wasatch County in 1993. The Service Area was created to manage the water distribution for Wasatch County. The Service Area is the representative for Wasatch County in the Central Utah Project, as defined by the Central Utah Water Completion Act.

Component Unit

Under the guidelines established by GASB 39, the Service Area has been determined to be a component unit of Wasatch County for financial accounting purposes and is included as a blended component unit in the County's financial statements.

Basis of Accounting

Enterprise funds focus on measurement of the flow of economic resources. With this measurement focus, all assets and liabilities associated with the operation of this fund, both current and noncurrent, are included on the statement of net assets. The accrual basis of accounting is utilized by enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded at the time they are incurred.

Enterprise funds follow all GASB pronouncements. In addition all Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 are followed unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

WASATCH COUNTY
WATER SERVICE AREA

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principle operating revenues of the Service Area are charges to customers for water provided by the Service Area. Operating expenses for the Service Area include the costs of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Accounts Receivable

The Service Area normally does not write off accounts receivable. The Service Area can cease the delivery of water to customers whose accounts are not current. This capability is considered to be sufficient leverage to ensure the eventual collection of all fees; therefore, an allowance for doubtful accounts is not recorded in the financial statements.

Capital Assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Capital assets are defined by the Service Area as assets with an initial, individual cost of more than \$5,000.

The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Water lines	50 years
Vehicles	5 years
Equipment	5-10 years
Office equipment	5 years

WASATCH COUNTY
LOCAL GOVERNMENT
A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the income for the period.

Compensated Absences

The Service Area's compensation policy permits employees to accumulate up to one year of unused vacation. Accrued vacation is paid out upon termination or retirement. Sick leave is paid out at one-half the amount accrued upon retirement or forfeited at termination of employment; therefore, the amount is excluded from accrued compensated absences. There were no employees as of December 31, 2006; therefore, there were no accrued compensated absences.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management

The Service Area is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, and natural disasters for which the Service Area retains the risk of loss. As of December 31, 2006, no claims had been made. The Service Area also carries commercial worker's compensation insurance. For insured programs there were no significant reductions in coverage from the prior year, and settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Budgeting

The Service Area's governing board adopts a budget for each calendar year prior to the beginning of the year. These budgets are amended during the year, as the board deems necessary to accommodate current operations, and are accepted by official vote of the board. The budget for the year ended December 31, 2006 was not amended.

WASATCH COUNTY
SERVICE AREA
A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Service Area defines cash and cash equivalents as all deposits in its checking account, and all highly liquid debt instruments purchased with a maturity of three months or less.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets net of accumulated depreciation.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Service Area or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Service Area first utilizes restricted resources to finance qualifying activities.

Any amounts not meeting either of the requirements described above are reported as unrestricted net assets.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits and investments for the Service Area are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council (the Council). Following are discussions of the Service Area's exposure to various risks related to its cash management activities.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Service Area's deposits may not be recovered. The Service Area's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the Service Area to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2006 all of the Service Area's bank balance of \$22,238 was insured by the Federal Deposit Insurance Corporation (FDIC).

WASATCH COUNTY
OFFICIAL GOVERNMENT APPROPRIATIONS

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The Service Area's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The Service Area is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the year ended December 31, 2006, the Service Area had investments of \$810,526 with the PTIF. The entire balance had a maturity of less than one year. The PTIF pool has not been rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Service Area manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

NOTE 3 – ECONOMIC DEPENDENCY

The Service Area is economically dependent on the revenues it receives from providing services within its boundaries. The Service Area received 85 percent of its revenues from these sources.

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 is as follows:

	Balance 12/31/2005	Additions	Deletions	Balance 12/31/2006
Capital assets, being depreciated				
Water lines	\$ 3,866			\$ 3,866
Vehicles	39,138		\$ (23,769)	15,369
Equipment	8,848			8,848
Office equipment	1,738			1,738
Total capital assets, at historical cost	<u>53,590</u>		<u>(23,769)</u>	<u>29,821</u>
Less accumulated depreciation				
Water lines	437	\$ 78		515
Vehicles	32,008	3,961	(20,600)	15,369
Equipment	7,111	386		7,497
Office equipment	1,738			1,738
Total accumulated depreciation	<u>41,294</u>	<u>4,425</u>	<u>(20,600)</u>	<u>25,119</u>
Capital assets, net	<u>\$ 12,296</u>	<u>\$ (4,425)</u>	<u>\$ (3,169)</u>	<u>\$ 4,702</u>

NOTE 5 – COMMITMENTS

On December 17, 1996, the Service Area petitioned the Central Utah Water Conservancy District (CUWCD) for 2,400 acre-feet of municipal and industrial (M&I) water developed by the Bonneville Unit of the Central Utah Project for the purpose of supplying water for municipal and industrial use within its boundaries. In exchange for this petitioned water, the Service Area must pay CUWCD an annual fee. During 2004, the CUWCD changed its billing practices such that the Service Area is billed for the contracted amount of water, rather than based on actual usage. The fee includes 66 percent of CUWCD's repayment obligation to the United States for the Project M&I Water sold, an operation and maintenance fee per acre-foot, and an emergency and replacement reserves fee per acre-foot, both of which are adjusted annually. The Service Area incurred \$291,574 in fees for petitioned water sold in 2006, the balance of which was still owed at year end.

WASATCH COUNTY
LOCAL GOVERNMENTAL SERVICE AREA
A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 6 – EMPLOYEE BENEFIT PLANS

State Retirement

The Service Area contributes to the Local Governmental Noncontributory Retirement System and the 401(k) Defined Contribution System for qualifying employees. These retirement systems are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the *Utah Code Annotated 1953* (Chapter 49) as amended which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

The amount of annual covered salary on behalf of participants in the Local Governmental Noncontributory Retirement System the Service Area was required to contribute was 11.09 percent for the year ended December 31, 2006. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Also, the Service Area contributed 2.44 percent of their covered employee's annual salary to the 401(k) Plan Defined Contribution System.

The Service Area's contributions were equal to the required contributions for the year. The contributions have been as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Local Governmental - Noncontributory	\$ 2,052	\$ 6,222	\$ 4,018
401(k) Plan	451	1,369	1,108
Total Service Area contributions	<u>\$ 2,503</u>	<u>\$ 7,591</u>	<u>\$ 5,126</u>

**WASATCH COUNTY
SPECIAL SERVICE AREA #1**

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 6 – EMPLOYEE BENEFIT PLANS (CONTINUED)

457 Plan

Also, the Service Area offers a voluntary deferred compensation program pursuant to Section 457 of the Internal Revenue Code. In accordance with Governmental Accounting Standards Board Statement 32 (GASB No. 32), the assets and income of the 457 Plan are held in trust for the exclusive benefit of the participants or their beneficiaries; therefore, the assets held in this plan are excluded from the Service Area's financial statements.

Cafeteria

The Service Area offers a cafeteria plan to all employees to fund health insurance benefits.

NOTE 7 – RELATED PARTIES

Wasatch County

The Service Area reimbursed Wasatch County for health insurance premiums paid on behalf of the Service Area employee as of December 31, 2006, and for overhead and accounting services received from County employees totaling \$16,212 of which \$543 was still owed at year end. The Service Area is a component unit of Wasatch County.

Jordanelle Special Service District (JSSD)

The Service Area and JSSD are both governed by the Wasatch County Council. As of December 31, 2006 the Service Area had charged JSSD a total of \$323,940 for water delivered during the year and water contracted for over the next three years. No balance was due at year end.

Midway Irrigation Company

Members of the Service Area's governing board are also board members or stockholders in Midway Irrigation Company. As of December 31, 2006 the Service Area had charged Midway Irrigation Company a total of \$20,469 for water delivered during the year, the balance of which was still due at year end.

Twin Creeks Special Service District (TCSSD)

The Service Area and TCSSD are both governed by the Wasatch County Council. The Service Area sold a 2002 Dodge truck to TCSSD for \$16,500. No balance was owed at year end.

ADDITIONAL AUDITORS' REPORTS AND SCHEDULES

These additional reports are required by *Government Auditing Standards* and the Utah State Auditor's Office, respectively.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Board Members
Wasatch County Special Service Area #1
Heber City, Utah

We have audited the financial statements of Wasatch County Special Service Area #1 as of and for the year ended December 31, 2006, and have issued our report thereon dated May 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Wasatch County Special Service Area #1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Wasatch County Special Service Area #1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Utah State Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward + Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

May 21, 2007

WASATCH COUNTY
SPECIAL SERVICE AREA #1
A COMPONENT UNIT OF WASATCH COUNTY

Schedule of Audit Findings

December 31, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Wasatch County Special Service Area #1.
2. There were no reportable conditions relating to the audit of the financial statements reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. There were no instances of noncompliance required to be reported under *Government Auditing Standards*.

B. FINDINGS – FINANCIAL AUDIT CURRENT YEAR

None

C. CURRENT YEAR STATUS OF PRIOR-YEAR FINDINGS

None



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UTAH STATE COMPLIANCE REPORT BASED ON THE REQUIREMENTS, SPECIAL TESTS AND PROVISIONS REQUIRED BY THE STATE OF UTAH'S LEGAL COMPLIANCE AUDIT GUIDE

Honorable Board Members
Wasatch County Special Service Area #1
Heber City, Utah

We have audited the accompanying financial statements of Wasatch County Special Service Area #1 (Service Area) for the year ended December 31, 2006, and have issued our report thereon dated May 21, 2007. Our audit included testwork on the Service Area's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Districts
- Other General Compliance Issues

The Service Area did not receive any State grants during the year ended December 31, 2006.

The management of the Service Area is responsible for the Service Area's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Service Area's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

There were no instances of noncompliance reported in the prior year.

In our opinion, Wasatch County Special Service Area #1 complied in all material respects with the general compliance requirements identified above for the year ended December 31, 2006.

This report is intended solely for the information and use of management and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward + Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

May 21, 2007